No. 1 General Information Series Issued April 1938

UNITED STATES DEPARTMENT OF AGRICULTURE

FEDERAL CROP INSURANCE CORPORATION

FCIC

Crop Insurance For Wheat Growers

A brief summary of the provisions and proposed operation of the Federal Crop Insurance Act

CROP INSURANCE, which seeks to enable the farmer to have wheat to sell every year whether his crop fails or not, will soon be ready for wheat farmers of the United States.

Title V of the Agricultural Adjustment Act of 1938, known as the Federal Crop Insurance Act, makes crop insurance for wheat available to farmers who want it. It establishes a Federal Crop Insurance Corporation, which will offer wheat farmers insurance on their crop against losses from unavoidable causes such as drought, flood, hail, wind, tornado, insect pests, and plant diseases.

Insurance policies will be offered beginning with the crop for harvest in 1939. Premiums for insurance on the 1939 crop must be paid at the time the farmer gets his policy. The amount of premiums to be paid will depend upon the crop-loss experience both on the farm and for the county in which the farm is located.

All premiums are to be in actual wheat or its cash equivalent, and actual wheat is to be stored by the Corporation to pay losses to farmers. The wheat paid in as premiums will be held by the Corporation in approved storage as a reserve, until paid to farmers as indemnity for crop losses. The administrative expenses and the cost of storage will be paid by the Corporation with funds appropriated by the Government. The net cost of insurance will be borne by the farmers through payment of premiums.

Crop insurance fits into a national agricultural policy of utilizing a part of surplus production to maintain reserves of farm products and to stabilize income of farm producers. It extends to the hazardous business of wheat growing the insurance protection that other businesses long have enjoyed. The need for crop insurance was spectacularly demonstrated by the droughts of 1934 and 1936, but this need has always existed, since farming is one of the most uncertain of all occupations.

While farmers must have good prices to obtain an adequate income, high prices mean nothing to a farmer who has no crop to sell. With his wheat production guaranteed up to a certain number of bushels per acre the insured farmer will have wheat to sell every year.

Insurance Is In Bushels, Not Dollars

An outstanding feature of this insurance plan is that everything is reckoned in terms of wheat. The premium a farmer pays is figured in bushels of wheat. The indemnity he collects for his losses is figured in bushels of wheat. The Federal Crop Insurance Corporation holds its reserves in wheat.

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The plan does not guarantee the farmer a certain price. But it does try to assure him that he will have wheat to put on the market. He will get whatever price the market pays at the time he sells his wheat. It protects him against fluctuations of yield, not of price.

Crop insurance will be available only to wheat growers at first, although if it is successful, it may later be extended to corn, cotton, and other crops.

In several respects, wheat is well adapted to testing the practicability of crop insurance. A subhumid climate prevails over the large areas of the world which produce high-milling quality wheat. This climatic condition makes wheat growing hazardous. Once wheat is sown, crop risks depend largely on natural hazards, and yields are not affected by methods of cultivation as is the case with row crops. Another most important reason for starting with wheat is that available data can be readily used as a basis for crop insurance.

Owner-operators, landlords and tenants, in counties and areas in which a substantial number of farmers take out insurance, may insure production on farms on which soil conservation and other good farming practices are followed. Policy holders who fail to earn A. A. A. wheat payments for a farm because of exceeding wheat allotments will not be eligible for crop insurance for that farm the following year.

For How Much Can A Crop Be Insured?

A wheat farmer can insure his crop for either three-fourths or one-half of the average yield of his farm.

To insure for the full average yield might encourage slovenly farming. Insurance for a percentage yield leaves an incentive to good farming.

Farmers whose loss experience includes a comparatively large number of crop failures may regard a coverage of three-fourths of their average yield as prohibitive in cost. For such farmers a coverage of one-half of their average yield is available at substantially lower premiums.

Who Operates and Pays For The Program?

The program is to be administered by the Federal Crop Insurance Corporation, established under the terms of the Federal Crop Insurance Act. Local administration will be through State and county committees. Thus, as in the case of the Agricultural Adjustment Administration crop-adjustment and soil-conservation programs, farmers will act cooperatively with the assistance of a Federal agency.

The act authorizes an appropriation of $100,000,000 for capital of the Corporation and $6,000,000 a year for administrative and operating costs including storage. The capital provides a reserve upon which the Corporation may draw if heavy crop losses occur before the Corporation, through premiums, has been able to build up reserves sufficient to cover them.

Expenditures for administration and operating costs are considered to be in the interest of the general welfare of the Nation, since the program is designed not only to stabilize wheat growers' income, but also to establish reserve supplies of wheat to meet domestic requirements in case of serious crop failures. Frequent crop failure in the

high-risk areas has necessitated public expenditures for relief, and insurance helps the wheat industry to stabilize its own income.

While the Government helps the farmers to launch and operate an insurance program, the net cost of insurance is borne by the farmers themselves. Premiums must be adequate to meet the cost of indemnifying crop losses.

Where Wheat Premiums Will be Stored

The act authorizes the Corporation to store grain paid in as premiums by farmers. In general, the plan is to store the wheat as near as possible to the point where it is grown.

The wheat so stored will provide a reserve for years of crop failure and will thus assure consumers of a more adequate wheat supply. The amount of wheat which will be stored as premiums will depend upon the number of farmers who take out insurance. It is estimated that the total may range from 50 million to 100 million bushels.

If a large portion of the wheat crop is covered by insurance, the reserves will tend to stabilize the supply and price of wheat. In years of big wheat crops, payment of premiums into the reserves will take some of the surplus from the market. In years of wide crop failures, wheat from the reserves will be put back onto the market.

While this will help stabilize prices, there will always be fluctuations in them. In years of widespread crop failure, when prices are normally higher, farmers as a group will get back most of the wheat they paid in earlier as premiums. Thus they will tend to receive back as indemnities higher-priced wheat than they paid in as premiums.

How Are Coverage and Premiums Determined?

The county committees, through which the Agricultural Adjustment Administration carries out its programs, have in the past acquired and kept record of the annual yields on a large proportion of the farms. Where no records are available for an individual farm the yield can be appraised on the basis of the experience of similar farms and on the basis of the county average.

Premiums are also determined from these yield records, but they are gauged by the variability in the annual yields rather than by the average annual yields. The crop-loss experience for the farm can be figured from the record of annual yields. The average crop-loss experience for wheat by counties has already been determined from sample farms in wheat-producing counties. The premium per acre in bushels that a farmer pays will be the average of the crop-loss experience on his farm and the county crop-loss experience. The farmer with a bad record of crop losses will thus pay a higher premium than one with a good record.

Averaging with the county loss experience will tend to smooth out differences between farms, thus allowing for crop losses due to accidental causes that are no more likely to occur in subsequent years on one farm than on another. For instance, hail may have destroyed a crop for a farmer in one year but his neighbor has as much chance of being hit next time. Or he may have had a shower that helped his crop but the next shower may as likely fall on his neighbor's land. This procedure will still leave substantial differences in premiums among farms to account for differences in ability of farmers and differences in quality of land.

How Are Premiums and Insurance Collected?

While the premium and losses are figured in terms of bushels of wheat, this does not mean that a farmer has to haul actual wheat to his local insurance office to pay his premium, or haul it home when he collects for his losses.

The insured farmer hauls his wheat to market, just as he always does. He may get from the local elevator a storage receipt for the number of bushels he pays as premium. With this storage receipt he can pay his premium at the local insurance office.

Or he may pay his premium by check or in cash, in which case the Corporation will convert the cash into actual wheat by using it to buy wheat at the current market price and storing the actual wheat against the time when losses must be paid. When a loss is paid the insured farmer, if he wishes, can receive cash, which the Corporation may obtain by selling wheat on the market or which it may obtain from cash premiums being received currently.

How Will The Plan Affect The Wheat Market?

One of the first questions asked about crop insurance and the storing of wheat reserves is "What effect will this have on wheat prices and the wheat market?" Most people who ask this question remember the Farm Board's experience in attempting to stabilize the price of wheat.

The crop-insurance plan differs from the Farm Board Program. The wheat reserves cannot be dumped on the market at any time. Wheat stored as reserves will be released only in payment of losses. The amount so released will be small in good crop years and large in years of widespread crop failures. This fact will tend to stabilize both market supplies and market prices.

Another frequent question is whether the insurance Corporation will be active in the wheat market. The only buying and selling which the Corporation is authorized to do under the law is the buying of grain to be stored as insurance reserves when farmers pay their premiums in cash, and the selling of grain for farmers who want crop losses paid in cash rather than in actual wheat. Grain may be sold to prevent deterioration but an equivalent amount must be purchased to replace it. Likewise grain in one location may be sold and replaced by grain bought in a more convenient location.

Insurance Costs and Benefits

A wheat farmer, in considering whether he should insure his crop, wants to compare the costs with the benefits.

If, for example, he could get three-fourths of an average crop every single year, in spite of grasshoppers, drought, or other unavoidable hazards, by sowing approximately ½ bushel more per acre on the best wheat land, 1 to 1½ bushels more per acre on good wheat land, and 2 to 2¾ bushels more per acre in the highest-risk areas, would he be willing to do so?

A farmer cannot be sure of such a crop every year by putting the extra seed wheat in the ground, of course. But he can assure himself such a crop by putting the wheat into insurance premiums.

Farmers interested in applying for this insurance should get in touch with their county agents or with their local Agricultural Adjustment Administration county committeemen.

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UNITED STATES DEPARTMENT OF AGRICULTURE

FEDERAL CROP INSURANCE CORPORATION

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ECONOMIC JUSTIFICATION FOR CERTAIN SALIENT PROVISIONS OF THE REGULATIONS, APPLICATION, AND POLICY FOR WHEAT CROP INSURANCE

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A Brief History of the Program and a Brief Outline of the General Plan of Operation

HISTORY OF PROGRAM

The Department of Agriculture has long been interested in the subject of crop insurance. Research work on that subject has been carried on in the Department at varying degrees of intensity over a period of about 20 years. The experience of private insurance companies in their attempt to write such insurance 15 to 20 years ago were followed closely. Early in 1936, active research in crop insurance was recommended in the Division of Agricultural Finance of the Bureau of Agricultural Economics. The Agricultural Adjustment Administration had acquired a large amount of information on wheat and cotton yields on individual farms incident to its adjustment programs. The data for wheat were tested and analyzed to see if they might provide an actuarial basis for crop insurance. The results soon showed promise of yielding reliable and useful figures, and an allotment was made by the Secretary of Agriculture from the special research fund to carry on the studies for all important wheat producing sections of the country and to start work on other crops, particularly cotton and corn.

Partly as a result of the severe drought in the summer of 1936, of the introduction of legislation in the Senate to provide for crop insurance, and of the research work in progress on crop insurance, the Secretary of Agriculture in the summer of 1936 advocated a program of crop insurance "in kind" to supplement the other agricultural programs. Public response was immediate and in September 1936 the President appointed a special committee to study the subject, of which the Secretary of Agriculture was made chairman. The other members were Wayne C. Taylor, Assistant Secretary of the Treasury; Ernest G. Draper, Assistant Secretary of Commerce; A. G. Black, Chief, Bureau of Agricultural Economics; and H. R. Tolley, Administrator, Agricultural Adjustment Administration.

That committee investigated carefully the possibilities of crop insurance. It met with representatives of farmers and farm organizations, with representatives of stock and mutual fire and hail insurance companies, and with representatives of warehousing interests at different meetings. Wheat producers and their representatives manifested deeper interest in crop insurance than producers of other commodities.

After careful consideration of all factors involved, the committee reported in December 1936 recommending to the President a plan of "all-risk" crop insurance for wheat. The President transmitted the report to Congress in February 1937, a copy of which is included in this docket. In February 1937, a bill was introduced in the Senate (S. 1397) by Senator Pope to provide for insurance along the lines recommended by the President's Committee on Crop Insurance.

Prepared by Wm. H. Rowe, senior agricultural economist, Division of Agricultural Finance, Bureau of Agricultural Economics.

Hearings were held before a subcommittee of the Senate Committee on Agriculture and Forestry, and on March 30, 1937, the bill was passed by the Senate.

Hearings were held in the summer of 1937 before a subcommittee of the House Committee on Agriculture. The legislation was reported out favorably by the subcommittee and by the Committee on Agriculture, but was not taken up on the floor of the House as the session was nearly at an end.

The legislation, with the recommendations of the House Committee on Agriculture, was included by the Senate in the Agricultural Adjustment Act of 1938. It was included in the report of the conference committee, adopted by both houses, and signed by the President February 16, 1938.

GENERAL PLAN OF OPERATION

The general plan of operation, on the basis of the legislation and the recommendations of the President's Committee on Crop Insurance, is as follows:

1. **Administrative and operating setup.**—(a) The Federal Crop Insurance Corporation is an agency of and within the Department of Agriculture.

(b) The Board of Directors is appointed by the Secretary of Agriculture, consists of three persons employed in the Department of Agriculture, and is subject to the general supervision of the Secretary.

(c) The executive officer of the Corporation is the Manager who is appointed by the Board of Directors with the approval of the Secretary of Agriculture.

(d) Operations will be conducted from branch offices with supervision and control from the Washington office.

(e) State supervisors of crop insurance will be subject to supervision by the Corporation and will work in cooperation with the State agricultural conservation committee of the Agricultural Adjustment Administration.

(f) Local operation of the program will be carried on by county agricultural conservation committees, except where perhaps for some local reason the Corporation may designate some other committee. Such committees, in their crop insurance work, will be subject to supervision by the Corporation and by the State supervisor of State agricultural conservation committee. Actual operations will be conducted by a county supervisor of crop insurance who may be specially employed or may be a member of the county committee. He will be responsible to the Corporation as well as to the county committee.

2. **Integration with other farm programs.**—The wheat crop insurance program is part of the general agricultural program administered by the United States Department of Agriculture. One objective of the general program is security for farmers. The crop insurance program approaches that objective by insuring yields up to either 50 or 75 percent of the average yield for the farm. Through its ever-normal granary feature, it contributes to stability of price.

Applications for insurance will be accepted only if soil conservation and good farming practices are being followed. Any person who exceeds his wheat acreage allotment to such an extent that no wheat pay-

ment is earned with respect to the farm for such year will not be eligible to obtain insurance with respect to such farm for the following year.

3. **Application for crop insurance.**—Insurance policies will be issued on wheat crop planted for harvest in 1939. Applications must be made for such insurance before seeding and before a designated closing date for filing of applications. Premiums must be paid before policies are issued. (See paragraph 1 of policy stipulations.)

Applicants will submit their applications to the county committee. The applicant will furnish information on seeded acreage and production for the years of the base period, 1930–35. These applications will be forwarded to the State committee for editorial examination as to completeness, and from there to the branch offices of the Corporation. The Corporation will determine the amount of the premium. A premium notice will be sent to the applicant and upon receipt of payment of such premium the policy will be issued.

4. **Insurance coverage.**—The policy will carry essentially "all-risk" coverage against unavoidable hazards. The insurance plan is really one of yield insurance. The amount of insurance coverage per acre will be either 50 or 75 percent of the adjusted average yield. The applicant will indicate whether he desires 50 or 75 percent coverage, but the Corporation may limit the coverage to 50 percent. The adjusted average yield for the farm, to which the percentage applies, will be the average yield for the 6 years 1930–35 adjusted so as to reflect the yield for the 10-year period 1926–35. Thus, the amount of insurance per acre will be determined by the productivity of the applicant's farm and by his choice of the 50 or 75 percent coverage. The indemnity for loss will in general terms be the amount by which the production in the policy year falls below the coverage.

5. **Amount of premium.**—The amount of the premium will be the average of the crop loss experience for the farm and the crop loss experience for the county in which the farm is located. Crop loss experience for the farm will be determined on the basis of the yield history for the farm. It is based on the extent to which the applicant would have collected indemnification for loss had he been insured during the period 1926–35. The crop loss experience for the county has been determined in a similar manner by the Bureau of Agricultural Economics, using for sample farms data that were acquired by the Agricultural Adjustment Administration from applications presented in connection with the 1936–39 wheat adjustment program.

Averaging the crop loss experience for the insured farm with the crop loss experience for the county will give weight to the soil and management factors, as well as to the climatic factors, most of which can be predicted better by reference to the crop loss experience of the county than to the crop loss experience for the farm.

6. **Payment in wheat or cash equivalent.**—The amount of premium will be determined in bushels of wheat of a specified class and grade. The specified class and grade of wheat will be that most commonly produced in the area. It will be the basis for settlement of claims for losses as well as the basis for fixing premiums. The premiums may be paid by warehouse receipts for certain other grades of wheat, the amount to be determined by conversion factors. The premium may also be paid in the cash equivalent of such wheat; such cash

equivalent, as the best approach to local price, will be determined by deducting from the basic market price at a designated terminal or subterminal market the cost of transportation and other usual charges involved in movement and handling of wheat between the local market and the designated basic market.

Settlement of losses will be made in warehouse receipts for wheat, or in the cash equivalent thereof, determined ordinarily by the wishes of the insured, but with the Corporation having option to pay in either. The basis for determining the cash equivalent will be approximately the same for settlement of losses as for the payment of premiums.

7. **Wheat reserves.**—Reserves of the Corporation built up out of premiums will be held in wheat. In general, premiums received in cash will be invested in wheat at some suitable storage point. In the event that loss settlements are made in cash, wheat will be sold to make such settlements, provided, of course, that cash receipts for premiums and cash payments for settlement of losses, when occurring at approximately the same time, will be offset and only the net difference invested in wheat or acquired through sale of wheat. The Corporation by law is prohibited from making purchases of wheat at a rate and to a total amount in excess of payment of premiums in cash and to sell wheat in excess of the amount necessary to cover payment of the indemnities and to prevent deterioration. Wheat may also be purchased and sold for convenience in handling, but in these cases, as in the case of wheat sold to prevent deterioration, prompt offsets must be made. These restrictions on the purchase and sale of wheat are required by section 508 of the Federal Crop Insurance Act to be included in the insurance contract. They appear in paragraph 15 of the proposed policy stipulations.

Economic justification for some of the salient provisions of the insurance application, policy, and regulations are included in a memorandum attached hereto.

ECONOMIC JUSTIFICATION FOR CERTAIN SALIENT PROVISIONS OF THE REGULATIONS, APPLICATION, AND POLICY

1. **Who may apply** (sec. 20).[1]—Only persons who have an interest as owner or operator in the wheat crop to be seeded on a farm may apply for insurance. The terms "owner" and "operator" shall not include any person whose interest in the wheat crop exists by virtue of a creditor relationship, or any person whose interest exists on account of a lien, mortgage, garnishment, levy, execution, bankruptcy, or any other legal process. This provision limits the benefits of the Federal Crop Insurance Act to persons who are farmers in the ordinary usage of the term, with the possible exception that the owner may not be a person performing farm operations.

It is justified on the grounds that creditors or their representatives do not carry the primary risk on the crop; their interests in the crop are protected from loss by the equity of the borrower in his crop, by the borrower's equity in other assets that he owns, and by

[1] Notations in parenthesis after topical headings refer to the section number of the proposed regulations or to document where the provision may be found.

his earning power. Furthermore, it is believed that as a matter of policy the insurance should be made available only to persons who are primarily wheat producers. It is true that in many cases absentee share landlords do not occupy a status much different from that of a trustee in bankruptcy or a receiver, in the sense that neither participates directly in the farming operations. Many owners do, however, and the rules provided represent an attempt to draw a reasonably clear line of eligibility.

Separate policies will be issued to landlords and operators covering the respective interest of each in the crop. This provision for issuance of separate policies will enable either the operator or the landlord to obtain a policy, even if the other party does not desire to insure his interest. If the applicant is not the operator of the farm, he will nevertheless be bound by all of the provisions of the policy as if he were the operator. In other words, the landlord cannot collect indemnification for loss resulting from poor farming methods of the operator.

Applications for insurance will be accepted only with respect to farms on which soil conservation and other good farming practices are being followed. It is sound practice for any insurance organization to refuse insurance to those who do not take reasonable precautions against the occurrence of loss.

The wheat crop insurance program is part of the general agricultural program administered by the United States Department of Agriculture, and therefore, it has been provided in section 20 of the regulations that any person who, having obtained a policy, exceeds the wheat acreage allotment established under section 8 of the Soil Conservation and Domestic Allotment Act, as amended, for the farm for the crop year covered by the policy to such extent that no wheat payment with respect to such farm is earned for such year, shall not be eligible to obtain insurance with respect to such farm for the following year. This limitation for the following year applies with respect to the farm for which the insurance was written and to the person who obtained the policy. It would not be administratively possible to apply the provision with respect to the person alone, since this would involve the very difficult procedure of tracing of individuals. Nor is it possible to apply this provision to the farm without regard to the person, since a new owner or new operator of the farm should not be held responsible for the acts of a previous owner or operator.

2. **Insurance covers losses from all unavoidable causes** (application).—The Federal Crop Insurance Act states that the Corporation shall insure producers of wheat against losses in yield of wheat "due to unavoidable causes, including drought, flood, hail, wind, winter-kill, lightning, tornado, insect infestation, plant disease, *and such other unavoidable causes as may be determined by the Board.*" The following specific causes have been enumerated in addition: Frost, fire, storm, animal pests, excessive or deficient moisture and incursions of animals. Also the provision, "*any other unavoidable cause not excluded herein*" has been added.

The specific exclusions under the act are neglect or malfeasance of the producer and failure to reseed in areas and under circumstances where it is customary to reseed. These have been interpreted

to include neglect and malfeasance of any person in the insured's household or employment or connected with the farm. The following exclusions from coverage have been added: Damage to quality and loss in yield caused by overpasturing, overplanting, use of defective seed, failure to properly prepare the land, seed, harvest, thresh, or care for the crop.

There are several reasons for extending the coverage to include losses from all unavoidable causes except those specifically exempted. They are:

(a) To insure against specific risks makes it necessary in adjustment of losses to specifically determine the cause of the loss, and that would be virtually impossible since losses usually arise from more than one cause.

(b) The only available data for determining premium rates are losses in yields from all causes. Adequate and reliable data do not exist regarding losses from specific causes. Consequently, premium rates have been determined on the basis of crop losses from all causes. It might appear that, since losses from a few specific causes are not covered by insurance, the premium rates so computed would be unnecessarily high. If there is any margin of safety in the rates for this reason, it probably will be needed to counterbalance some adverse selection of risks that may occur.

(c) When a farmer purchases specific risk insurance, it often happens that he loses his crop from some cause not insured against, and consequently loses also the benefit of the insurance premium paid. Such insurance is inadequate to meet the farmer's needs, for it does not assure him some income. Insurance against losses from all unavoidable causes does assure him something on which to live if he carried out his farming operations properly. Thus, while insurance is being written, it is desirable that such insurance cover all unavoidable risks.

3. **Limitation of insured percentage** (application).—The Corporation may limit the insured percentage to 50 percent of the adjusted average yield for the farm, notwithstanding that the insured percentage applied for is 75 percent of the adjusted average yield. The object of this provision is to enable the Corporation to limit its possible liabilities under circumstances where it is felt that 75 percent insurance might very likely involve larger losses than the historical data would indicate. For example, this provision might be useful in cases where a new and inexperienced operator has taken over a farm which, under more experienced management in the base period, has built up a record of production that would give it a high yield and a low loss cost. Even though the premium for 50 percent insurance would be based on history of the farm under more experienced management, the chances of the yield falling below 50 percent of the average, as a result of change in management alone, are not nearly so large as the chances of the yield falling below 75 percent of the average yield. There perhaps will be a variety of circumstances in which the Corporation would not be justified in granting 75 percent insurance, but would be justified in granting 50 percent insurance. Under this provision the Corporation may, without a new application, prepare a policy for 50 percent insurance. The applicant always has the privilege of refusing to take the policy by not paying the premium.

4. Policy period (policy).—Insurance under the policy will attach at 12 noon on the date of countersignature of the policy, but not before the premium has been paid and the wheat crop seeded. It would be impossible for the policy to go into effect before the crop was seeded, because there would be no subject of insurance. It has also been administratively decided that premiums should be paid in advance, and consequently the insurance cannot go into effect until the premium has been paid. A final date will be set in the premium notice for the payment of the premium. It will be set early enough that no damage will be likely to happen to the crop before the premium is paid.

Insurance protection terminates upon threshing of the crop (except for sacked wheat as described in following paragraphs), removal from the farm, or at noon on the first day of October, if not threshed or disposed of. One final termination date for all policies, both on winter and on spring wheat, has been provided because of the advantages of having a uniform policy. It is true that this provision will give some winter wheat farmers three or four months of protection after harvest, whereas it will give producers of spring wheat in northern parts of the country only a few weeks or a month. However, this final termination date is applicable only if the wheat is not threshed or disposed of earlier, so that it will not apply except in a relatively small proportion of the cases. This is especially true for winter wheat.

In Washington, Oregon, and Idaho it is a common practice for wheat farmers to sack the grain upon combining and to leave it in the field for a short period, until time and facilities are available for removing it. In a sense the crop is not completed until removed. The case is somewhat parallel to, although not exactly the same, as that of harvesting the grain and letting it remain in the field until a convenient time for threshing. In the latter case the insurance does not cease until the wheat is threshed (unless after October 1), even though threshing be delayed for considerable time after the wheat is ready to be threshed. If time and physical limitations prevent the farmer from removing sacked wheat immediately upon threshing, it would appear that the crop is not completed at threshing time but at a later date when it is removed.

Since the sacked wheat in the field is exposed to risk, it is logical that the insurance should not cease for a reasonable period after combining. It would appear that 120 hours would be a reasonable time within which to remove the wheat from the field. This provision is covered in sections 70 and 71–(a) of the regulations and in paragraph 1–b of the policy stipulations which reads: "The insurance shall cease with respect to any portion of the insured crop upon threshing (unless combined and sacked, in which event the insurance shall not cease for 120 hours thereafter), or removal from the farm, but in no event later than 12 o'clock noon on the 1st day of October 1939."

5. Base period and 10-year period 1926–35 (secs. 30 to 56).—The base period to be used for computation of the yield per acre and the premium per acre is the 6-year period 1930–35, both inclusive. The data for this period are to be adjusted to the 10-year period 1926–35, both inclusive.

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The justification for using the 6-year base period 1930–35, and the adjustment of such data to the 1926–35 period, is partly expediency and partly a choice of a period which would provide average yields and loss experiences that are as nearly fair and just for the country as a whole as can be accomplished with the data available. The source material for actuarial computations were yield data on individual farms acquired under the second wheat-adjustment program. For the operation of that program acreage and production data were acquired for individual farms for the 6 years, 1930–35. This is the longest period for which data on wheat production are available for consecutive years on any considerable number of farms.

As the result of the Agricultural Adjustment Administration programs in years subsequent to 1935, data will be available on individual farms for 1936 and 1937 before crop insurance policies are written, but since actuarial computations have been made already on the basis of years prior to 1936, it will be impossible to use the 1936 and 1937 data for insurance on the 1939 crop.

The years 1930–35 were years of major droughts in the Great Plains area and years of good crops east of the Mississippi. Consequently, data for such years hardly would form a fair and just basis for writing crop insurance. In view of that fact, adjustments have been computed so that the final figures will represent as nearly as practicable the history of yields and crop losses for the 10-year period 1926–35. This adjustment is determined on the basis of county-average yields for each of the 10 years, 1926–35. These were prepared in 1937 by the Division of Crop and Livestock Estimates and the State statisticians from earlier records that were available. It was considered impracticable on the basis of the records available to include years prior to 1926 in the series. Thus it is clear that the period used must, for practical purposes, be limited to some group of years between 1926 and 1937.

The following tables show the average yields for various periods and indicate that the 10-year period, 1926–35, provides a reasonable basis for insurance. Because of the lack of yield data on a per-seeded-acre basis, it is impossible to compare, except for the State of Kansas, the average yield per seeded acre for the 10-year period with average yields for other periods:

Kansas: Average yield per seeded acre

	Bushels
25 years—1911–35	10.89
15 years—1921–35	10.47
10 years—1926–35	10.51
8 years—1928–35	10.36
5 years—1928–32	13.28
6 years—1930–35	9.58

It will be noted that the average yield for Kansas for a 25-year period was 10.89 bushels. The average yield for the 10-year period 1926–35 was 10.51 bushels. Of all the groups shown in the table, the 10-year period shows an average yield closest to the long-time 25 year average yield. Thus it would appear that for Kansas the 10-year period, 1926–35, would provide a reasonable basis for crop insurance.

For the United States as a whole, it is necessary to make the comparison on a yield-per-harvested-acre basis, even though that basis may not be the best basis for the comparison. The following table

shows for the United States and for a number of important wheat States the average yields (per harvested acre) for the same groups of years as were used in the Kansas table above.

Average wheat yields per harvested acre for specified periods

Period	United States	North Dakota	South Dakota	Nebraska	Kansas	Montana	Texas	Oklahoma	Washington	Oregon	Illinois	Ohio	Pennsylvania
25 years, 1911–35	13.86	10.18	10.21	14.74	12.94	14.58	11.29	11.88	19.10	19.95	16.60	17.61	17.52
15 years, 1921–35	13.70	10.06	9.86	14.80	12.53	12.53	10.78	11.79	19.47	20.05	16.86	18.43	18.14
10 years, 1926–35	13.69	9.31	8.91	14.55	12.72	11.82	11.07	12.06	19.83	20.00	16.91	19.64	18.36
8 years, 1928–35	13.44	8.95	9.52	14.14	12.65	10.68	10.35	11.80	19.32	19.61	17.02	19.49	18.32
5 years, 1928–32	14.40	10.34	10.24	16.14	14.60	11.22	12.04	12.74	18.54	20.92	17.54	19.52	18.24
6 years, 1930–35	13.18	7.93	8.02	13.35	12.08	9.68	9.53	11.53	19.10	19.03	17.60	20.78	19.09

It will be noted from the above table that the average yield per harvested acre for the United States for the 25-year period 1911–35 was 13.86 bushels. The average yield for the 10 years 1926–35 was 13.69 bushels per acre. This yield for the 10-year period is practically the same as the yield for the 15-year period 1921–35 and, except for that yield, is the closest to the long-time average yield of any of the groups shown. While this is true for the United States as a whole, it is not true for all States listed in the table above; but since the program will be a national one, and the basic period should be the same in all States, it would appear that the 10-year period chosen is a reasonable one on which to base the crop insurance program.

In general, the average yield for the 10-year period was lower than the average for the 25-year period in the States of the Great Plains area and about the same or somewhat higher in other areas. It should be noted, however, that in the Great Plains area much new land has been brought into wheat production during those 25 years, and much of it during the last 15 or 20 years. Except for the first few years after the sod was broken, it appears from general observation that such new land brought into production did not yield so well as the land in production in the earlier years of the period. It would seem, therefore, that the average yields in the more recent 10-year period would be more representative of the future than average yields for the 25-year period.

For the States in the spring wheat area the 10-year average is lower in comparison with the 25-year average than for other States of the Great Plains area. This might indicate that the period chosen was one of too-low yields on which to base the insurance rates in that area. However, 1936, the year following the base period, was also a year of extremely low yields in that area, and 1937 in some of those States was also low. These most recent years with abnormally low yields were not included in preparing the actuarial data, and even though the 10-year average is lower in the spring wheat area than the long-time average, the rates in that area appear reasonable on the basis that they do not include the bad loss experiences of 1936 and 1937. For insurance in 1939, the experience of recent years may be more significant than is the experience of years

more than a decade past. This is especially true as there appears to be an accumulated deficiency of soil moisture of recent years.

It would appear, therefore, that due to limitations of data, and due to the fact that the 10-year period selected is reasonably comparable to a long-time period in the country as a whole, the years selected for the computation of yields and premiums for crop insurance on the 1939 crop are the best that could be chosen.

The 10-year period selected is thus the representative base period referred to in section 508 (a) of the act. Since yield data for the whole 10-year period would be available only in the cases of a negligible proportion of the applicants, the procedure proposed to be adopted provides for reaching an average yield for that period by making the adjustments indicated to the figures for the 6-year period, 1930–1935, for which figures are more commonly available. The same procedure is to be followed even in cases where figures are available in any particular case for the 10-year period. This is done because it would be unduly expensive to vary the procedure for the exceptional cases.

6. **Appraisal of average yield for the base period** (sec. 31).—In determining the average yield of a farm for the base period, it has been provided in the regulations that if data for more than 2 years of that period are not available, the county committee shall appraise the yield for the whole period and shall not obtain the average yield for the base period by appraising the yields in each of the years for which the data are missing. Appraisals or estimates tend to be influenced by average figures. Were the county committees to attempt to appraise the yields in each year of the base period, when such data were missing, it is quite probable that the yields which they would appraise would each tend toward the average or normal yield, and consequently the variability between estimated yields for each year would be lower than the variability between actual yield data. It is the variability in yields that determines the premium rates, and consequently it was provided in the regulations that yields for individual years should be appraised only if appraisals were required in no more than 2 such years.

It is further provided in the regulations that in cases where the county committee appraises the average yield for the base period as one figure, the Corporation itself shall determine the loss cost for that farm. County committees will not compute the loss costs on the application, and consequently will not be thoroughly familiar with the concept of loss cost. For that reason it has been provided that the Corporation, rather than the county committee, shall appraise a loss cost where that appraisal is necessary.

7. **Adjustment to average yield for the base period** (sec. 34).—The adjustment to yields on insured farms in a county will be computed as the difference between the 10-year average yield of wheat per seeded acre as reported by the Department of Agriculture and the 6-year average yield based on sample farms selected for actuarial purposes from A. A. A. records. This adjustment will take care of two factors: (1) The difference between the average levels of production in the 6 and 10 years, respectively, and (2) the difference between county estimates of yield and yields reported by farmers under the A. A. A. program. This adjustment will not only bring

in the influence of the earlier years, 1926–29, but will also eliminate the influence of overstatement of yields that occurred in some counties under the A. A. A. wheat-adjustment program. It is anticipated that much of the basic data on the applications for crop insurance will come from yields reported under the wheat-adjustment program, and consequently it is justifiable to apply a correction factor that will eliminate the bias in those data. Some injustice may be worked by this procedure against persons who stated accurately their yields in the adjustment programs. It is felt, however, that the injustice that may occur from this cause is less than the injustice that would be brought about by permitting farms in certain counties to have a much higher amount of insurance per acre than is justified because of overstatement of yields in an earlier agricultural program.

(a) *Application of a flat adjustment.*—All farms in the same county will have a uniform adjustment factor; that is, a certain number of bushels will be added to or subtracted from the average yield on the insured farm and a certain number of bushels or fractions of bushels will be added to or subtracted from the loss cost on such farm for the base period. A possible alternative to a flat adjustment to the yield would be a percentage change. This matter was carefully considered and the grounds for the use of the flat adjustment are as follows:

(1) A percentage adjustment upward applied to a small yield would in itself be very small. For example, an increase of 25 percent to an average yield of 2 bushels (many cases of this kind were found in sample data) would mean a correction factor of only half a bushel, whereas a correction factor upward of 25 percent for a farm with an average yield of 12 bushels would mean an increase of 3 bushels to the yield. The increase thus given to the farmer with a low yield would seem to be too small to give him a coverage that would justify his taking insurance.

(2) Tests have been made from what data are available to determine whether changes in county-average yields from year to year are the result of proportional changes in yields on individual farms. Evidence was not found that such was the case. Nor was evidence found that all farms contributed equally to changes in county-average yields. It would appear logical, however, that farms with low yields over the period, 1930–35, are farms that contributed much to the low level of average county yields in such period. Consequently, an adjustment factor applied to bring farm yields back to an average for a more representative period should not be applied in proportion to the yields during the abnormal period, but probably should be as large for farms with low average yields as for farms with high average yields.

(3) If this discriminates slightly in favor of the farmer with low average yields during the base period, it probably is offset by some discrimination against him that arises from averaging the loss experience on the individual farm with the loss experience of the county to arrive at a premium rate. It has been found in the arid sections of the Great Plains area that there is a positive correlation between yields and loss costs, that farms with low average yields also have low average loss costs. If the premium rate is made up by giving 50 percent weight to the county-average loss cost, this will make the

premium somewhat higher than the loss costs for most farms with low average yield. If the application of a flat adjustment to yield does cause discrimination in favor of farmers with low average yields, such discrimination is counterbalanced by the discrimination against farms with low average yields that occurs through using the county-average loss cost in making up the premiums.

(b) *Adjustments in yield in counties where both irrigated and nonirrigated wheat is grown.*—The regulations provide that in counties where wheat is grown on both irrigated and nonirrigated land, adjustment figures for irrigated and nonirrigated farms, respectively, will be determined so as to result in average yields for such farms which the Corporation determines will be fair and just. The yields of wheat on irrigated land will often be several times the yield of wheat on nonirrigated land. Consequently, instead of applying a uniform adjustment factor to all farms in the county, it frequently will be more fair and just to apply separate correction factors on irrigated and nonirrigated farms. No data exist, except in the State of Colorado, on which such differential in adjustment factors could be established, and consequently the adjustments for the two types of farming will have to be made on the basis of administrative determination of what is fair and just.

The general provision for the adjustment of yields from the 6-year to the 10-year basis provides that the adjustment figure for the county shall represent the difference between (1) the average yield of wheat per acre for the county as reported by the Department for the 10-year period 1926–35, both inclusive, and (2) the average yield of wheat per acre for the 6-year period 1930–35, both inclusive, on sample farms in the county selected by the Corporation for actuarial purposes.

In some counties where wheat is grown on both irrigated and nonirrigated land, it appears that the proportion of farms in the sample under each of these two types of farming is not the same as the proportion between the wheat acreage under each of the two types (as reflected by the census for 1929). Thus in some cases the yields in the sample were biased either in favor of production on nonirrigated acreage or in favor of production on irrigated acreage, and since the yields in the sample were biased, the adjustment factor produced as described above is unreliable.

The provision in the regulations providing for a deviation from the regular plan to take care of adjustments in counties where wheat is grown on both irrigated and dry land will enable the Corporation in such cases to fix an adjustment factor which will be fair and just, certainly more fair and just than the adjustment factor would be if the regular rule were followed.

8. **Adjustment where acreage actually seeded differs from acreage indicated in application** (sec. 41).—Many cases will arise in which the applicant will find it necessary to seed a different acreage than that which was indicated on the application. If the acreage actually seeded for harvest as grain is less than the proposed acreage, the total insured production shall be adjusted to the basis of the acreage actually seeded, and the excess premium will be returned. If the acreage actually seeded for harvest as grain is greater than the proposed acreage, the total insured production shall

not be adjusted, except upon proper application and approval of the Corporation, and upon payment of an additional premium to the Corporation. Thus, if an applicant does not desire additional insurance, the total insured production for the policy is unchanged. The Corporation's risk under such circumstances would be less than anticipated when the application was accepted, because the production from the farm would be larger than anticipated when the policy was written, and the chances of loss would be smaller. This provision makes for simple operation because if the applicant plants a few more acres than he had intended it will not require any change in policy.

If the applicant does not seed to wheat for harvest as grain, land of the same average quality as that of the land designated on the attached form map to be so seeded, or if he seeds fewer acres following summer fallow than are indicated in column (b) of paragraph 5 hereof, the Corporation may, if it determines that such planting has increased its risk, void the policy, in which event the premium shall be refunded. It is necessary for the Corporation to protect itself from becoming obligated to pay crop losses where the farmer has deviated in his plans from those set forth in the application on which the Corporation has to base its decisions.

9. **Maximum insured production on farms in drought areas** (sec. 42).—Regulations provide that in areas designated by the Corporation as drought areas any application for insurance in which the proposed acreage to be seeded to wheat for harvest as grain is in excess of the average annual acreage seeded to wheat for harvest as grain on the farm during the base period shall be rejected. The object of this provision is to prevent the exploitation of the Corporation by farmers in areas of drought where it is virtually certain at the time of application that they will be collecting indemnity on their insurance policies during the year 1939. It would obviously be folly for the Corporation to permit farmers in such areas to insure a maximum acreage when it is quite probable that the Corporation will have to pay large losses. This provision recognizes that farmers in such areas will need to produce some wheat to provide income during the year 1939 and the Corporation will take the risks on a reasonable acreage so planted; but the reasonable acreage is fixed as the annual average acreage seeded to wheat during the base period. This limitation protects the Corporation from extreme losses in such areas. It also is in line with the Department policy of discouraging the widespread planting of soil-depleting crops in drought areas, especially in dry years.

10. **Adjustment to average loss cost for the base period** (sec. 52).—Since it is provided that the average yield for the farm for the base period shall be adjusted to a 10-year basis (1926–35) it is logical that the average loss cost for the base period should also be adjusted to the 10-year period. As in the case of the adjustment to yields, the adjustment to loss cost will be a uniform amount applied to all farms in the county. There will be a separate adjustment for 75 percent insurance and for 50 percent insurance.

11. **Averaging individual and county crop loss experiences.**—The plan of determining premium rates by averaging the individual crop loss experience with the county crop loss experience has been

adopted because it represents a combination of individual experience rating and group experience rating. The actual crop record of the farm on which the rates are based cover only a period of 6 years—too short a period to reflect the probable crop losses in future years on the farm. The experience for all farms in the county during the 6 years probably was a more normal experience than the experience of an individual farm, and perhaps provides a better basis for predicting future losses from weather hazards. Crop losses frequently occur from accidental causes that in subsequent years are not any more likely to occur on one farm than on another. For instance, hail may have destroyed a crop for a farmer during the base period, but his neighbor has just as much chance of suffering losses from hail during the policy year 1939. Or a farmer may have had a shower that greatly helped his crop during some year of the base period; but during the policy year a well-timed shower might just as likely fall on his neighbor's land. Giving 50 percent weight to the county-loss experience in making up the premium will make use of a more normal experience for some natural hazards than could be obtained from the history of the insured farm, but will still leave substantial differences in premiums among farms to account for differences in ability of farmers and differences in quality of land.

12. **Minimum premium rate** (sec. 54).—The regulations provide that the minimum premium rate per acre on any policy shall be 0.5 bushel for 75 percent insurance and 0.3 bushel for 50 percent insurance. Many farms will have a low average loss cost for the base period because it so happened that in such period few losses occurred on the farm; if a longer period of years had been used for the base period it is quite probable that more losses would have been reflected. Furthermore, the crop is always subject to losses from catastrophies such as fire, flood, severe hail, or severe winter-kill, that may have never occurred in the 6-year base period or may not have occurred had the base period been even 10 or 15 years. Nevertheless the possibility of such a catastrophe does exist and justifies a minimum premium rate to cover hazards that are not shown in the base period experience.

A 15-year record of wheat planted on both treated and untreated plots in Illinois soil experiment fields indicates that the loss cost in only exceptional cases fell below 0.5 bushel per acre for 75 percent insurance. Fifteen years is a longer historical period than was used in the computation in the actuarial data for the insurance program and indicates that there is slight justification for insuring any wheat at a premium less than half of a bushel per acre.

13. **Premium to be paid in advance** (sec. 20).—Payment of premium will be required in advance. If premiums were not collected at the time the policy is issued but were collected at the time of harvest, the Corporation would have to take notes from persons who were insured and run the chance of collecting those notes at the time of harvest. While it would probably be possible in many cases to obtain a lien on the insured crop, many difficult problems such as those relating to conflicting liens and similar matters, would arise. Furthermore, it would involve the establishment of a collection unit within the organization at additional expense. Undoubtedly a certain proportion of the notes would be uncollectible and on those the Corporation would suffer a loss.

The Corporation, as it is now planned, will be involved in the business of insurance and the business of handling wheat. To extend credit on policies would involve the Corporation in the financing business as well. Since several Federal agencies operating under the Farm Credit Administration and the Department of Agriculture are already extending credit to farmers, it does not seem logical that the Federal Crop Insurance Corporation should enter that field as well. Provision has been made that the policy may be assigned for the purpose of obtaining a loan to pay for the premium. This should enable a large part of the wheat farmers, who desire insurance, to obtain credit if necessary to pay the premium in advance.

14. **Manner of payment of premium** (sec. 61).—The amount of premium will be determined in bushels of wheat of a specified class and grade that will be fixed by the Corporation, depending upon the area. If the premium is paid in wheat of another grade that is acceptable, the amount will necessarily be different and shall be determined by a conversion factor. This conversion factor will be fixed by the Corporation on the basis of the relationship between the prices of wheat of such grade and wheat of the specified grade.

The Corporation will accept warehouse receipts for wheat only if they are issued by a warehouse that is suitable to the Corporation, which has been designated in the premium notice. It would be administratively impossible to permit the applicant to pay for his insurance in wheat that is not stored or in wheat stored at places and in warehouses not suitable to the Corporation. This provision will work no hardship on the applicant for insurance because he always has the option of paying in the cash equivalent.

The theory of the payment in cash equivalent is that the cash equivalent should be the local price in the community where the insured's farm is located. Administratively it would be difficult to determine prices at all such points. As the best approach to local prices, the cash equivalent will be fixed at the basic price of wheat at a market designated by the Corporation for the area in which the farm is located less an amount per bushel fixed by the Corporation, representing freight and other usual charges in connection with the movement and handling of wheat between the local delivery point and the specified basic market. While the price at a basic market, less freight and usual handling charges, will not always be the same as the price in local markets, it will approach that figure, as local market prices are often determined by such factors. This procedure will involve no hardship on the insured because settlement of loss claims will be made on the same basis. Careful consideration has been given to this problem and this procedure appears to be the only plan that can be readily administered.

15. **Farm as a unit** (sec. 71).—Insurance protection as provided in the policy and regulations applies to the wheat produced on a farm and not to wheat produced on certain specified acres. There are three principal reasons for this:

(1) Were the Corporation to insure only certain acres on the farm, it is quite probable that application would be made for insurance only on the poorest or the most hazardous acres. The applicant would in many cases decide to carry the risk on the wheat planted on the better land himself. This would give the Corporation an adverse selection of risks in a large number of cases.

(2) The yield history to be used for determining the amount of insurance per acre and the premium rate is the yield history for the farm as a whole. It is virtually impossible to obtain a history of yields on specific fields or portions of fields. The history of wheat yields by farms is now available for a large proportion of the wheat farms as a result of the wheat-adjustment programs. Consequently, in selling insurance on the basis of such data, it will be necessary to require that all land seeded to wheat for harvest as grain be included under the policy. Were only a portion of wheat acreage included under the policy, there is no certainty that the data would be applicable to the risks on such acreage; in fact, it is very probable that the data would not be applicable.

(3) Were the Corporation to insure only a portion of the acreage seeded to wheat on the farm, many difficult problems of operation would be involved in segregating the wheat produced on insured acreage from the wheat produced on acres that were not insured. It would be virtually impossible under such a plan to utilize threshers' receipts, elevator receipts, etc., in determining the production from the insured acreage. Thus the difficulties of adjusting losses would be greatly increased if such a practice were followed.

16. **Requirements for reseeding** (sec. 71 and application).—The insurance policy provides that insurance will not cover loss caused by failure to reseed to wheat in areas and under circumstances where it is customary to reseed. In general, where it is the established farming practice to reseed a crop it is probable that such practice is a good farming method for the area, and it would be unwise for the Corporation to modify that practice by permitting the insured to collect indemnity when he could by his own action save the crop. This practice would involve insurance against risks that do not need to be covered by insurance.

A very important reason for this provision is that premium rates and yields per acre, in areas where reseeding to wheat is customary, are based on production made possible by that practice. Had the actuarial data been based only on the production from first seedings, the average yields per acre would undoubtedly be lower and the variability in yields used to compute premiums would undoubtedly be higher. In view of the fact that the history of crop yields and crop losses in such areas is based on the record of production under reseeding practices, it follows that the insurance contract must be based on the same practices, and losses due to failure to reseed be excluded from coverage.

17. **Amount of loss** (sec. 71).—The amount of loss payable under the policy will be the amount which the insured's interest in the total production of wheat on the farm (with due allowance for losses in production by reason of causes not insured against) is less than the total insured production for the policy. The total production for the farm shall include all wheat harvested on the farm, whether from acreage seeded for harvest as grain or not. It shall include wheat harvested as grain from volunteer acreage and wheat harvested on acreage seeded for purposes other than harvest as grain. Total production also includes, in the case of acreage that was seeded to wheat with the intention of harvesting same as grain, wheat that was not harvested but was otherwise used or disposed of. Such

might include wheat hogged off, pastured off, or sold before harvest. It is logical that wheat so disposed of should be counted as production in settling the loss.

In the case of acreage that the insured has failed to reseed when required to do so, and in cases where the insured's interest in the crop has terminated by voluntary transfer or process of law, production shall be presumed to be equal to the adjusted average yield per acre or to the actual yield, whichever is higher. This provision more than neutralizes the insurance for such acreage, because the insurance covers only three-fourths or one-half of the adjusted average yield. The provision does not work an undue hardship, however, because if the insured had reseeded his crop in the ordinary manner or had not transferred his crop, it is quite probable that the production would be the adjusted average yield. In other words, the average yield is the most probable production figure.

If the wheat crop is pastured off, cut for hay, or used for soil conservation before maturity, the production will be deemed to be 75 percent or 50 percent (whichever is applicable) of the adjusted average yield.

If not satisfied with the determination of the amount of loss payable under the policy, the insured may appeal for a readjustment of the loss to the branch office of the Corporation.

18. **Payment of indemnity** (secs. 80–83).—While the insured may indicate whether he desires the indemnity to be paid in wheat or in cash, the Corporation reserves the right to make payment in a form other than that indicated by the insured. This provision is administratively desirable as the Corporation may not have wheat available at convenient locations for payment of indemnities. This provision will work no particular hardship on the insured, for if he desires wheat he can use his cash settlement to purchase the wheat.

The provisions for payment of indemnities in wheat of a class and grade other than the standard class and grade, or in the cash equivalent, are similar to the provisions for payment of premiums as described in section 13 above. There will be under these circumstances a determination of conversion factors and deductions representing freight and usual charges in connection with the movement and handling of wheat. There will also be a determination of market prices. The determinations must necessarily be made by the Corporation, and by section 83 of the regulations they shall be final and conclusive and binding upon the insured. This provision is administratively necessary to prevent confusion that would arise if disagreements over these items arose in a large number of cases. The Corporation should be able to apply a uniform procedure in all cases in order to be fair and just to all claimants and this provision will enable it to do that. Determinations by the Corporation for settling of losses will be the same as determinations for payment of premiums, and consequently will be fair. Furthermore, they will involve amounts that are small in relation to the amount of the loss to be indemnified. The provision is necessary for effective administration of the program.

19. **Premium earned upon seeding** (policy).—The policy states that premiums shall be regarded as earned upon seeding. The hazards to the wheat crop are not uniform throughout the growing

season. Any attempt to prorate the premium between different parts of the growing season in order to provide refund of premiums upon cancellation of the policy would encounter the difficulty that it is not possible to determine what part of the risks on the crop have been carried by any particular date.

Furthermore, since provision has been made for assignment of the policy in cases of voluntary transfer of interest in the crop, it would seem that there would be few cases in which refund of premium would be necessary. To permit cancellation of the policy at the option of the insured, with a refund of premium at a short rate, would subject the Corporation to risks that it can not determine.

20. **Refund of premiums** (secs. 90–91 and policy).—There will be cases where the applicant does not seed as many acres as stated in his application and on which the premium was paid. In such cases the premiums on the acreage not seeded will not have been earned and will be refunded. However, since the wheat paid as premiums (or purchased with cash premiums) will have been held for some time by the Corporation, it will be necessary to make a deduction to cover storage and handling charges before making such refunds. The charge will be fixed by the Corporation and cannot exceed one-twentieth of a cent a day per bushel. This is equal to about 1½ cents a month. That amount may be necessary to cover storage and other charges incidental to the storage of wheat, such as handling, cleaning, etc. It is necessary to make this charge, as the refund provision might otherwise be used by individuals to obtain free storage of wheat for a certain period of time by paying premiums larger than will be needed. To facilitate the refunding transactions, most of which undoubtedly will be small, provision is made that all refunds shall be made in the cash equivalent of the wheat.

21. **Assignment provisions** (sec. 106).—There are two assignment provisions in the regulations. One provides that an assignment of the policy before the time of loss will be recognized only in connection with the voluntary transfer by the insured of his entire interest in an insured crop before the crop is cut. This provision will enable the man who sells his farm to transfer his insurance policy by assignment to the new owner. It will enable the tenant who leaves the farm after his crop has been insured to transfer the policy to the person who takes over his interest in the crop. It should be noted that the policy does not provide for a refund of premium where the insured's interest in the crop is terminated. This assignment provision will enable the insured to assign his policy for a consideration and thus enable him to recover some of the premium he has paid. This procedure will eliminate many operating problems that would necessarily be involved if refunds were to be made and policies canceled every time an insured's interest in the crop expired. Assignments, of course, will be subject to the approval of the Corporation.

The other assignment provision provides for assignment of the policy to secure loans. A policy may be assigned, with the approval of the Corporation, as collateral security for a loan made for the payment of the premium or for the care of the insured crop. Since premiums for insurance will be required to be paid in advance of issuance of the policy it may be necessary for some farmers to borrow money in order to pay the premium. It is logical that the policy

should be assignable as collateral for the advance of funds that makes it possible for the farmer to buy the insurance.

Proper care of the insured crop reduces the hazards that the Corporation takes in insuring the crop. It may be necessary for the insured to borrow money to properly care for and harvest his crop. By such loans the crop will be cared for in a better manner and the risks of the Corporation decreased. For this reason it is justifiable to permit assignments to secure loans made for the care of the insured crop.

22. **Other "all-risk" insurance** (policy).—There is at the present time one company operating in the United States that sells essentially "all-risk" insurance on wheat crops. It is quite possible that other companies may be organized even during the first year of operation of the Federal Crop Insurance Corporation. This raises the question of prorating losses, for it is a sound principle of insurance that property should not be overinsured. Were the Federal Crop Insurance Corporation to insure the wheat on a farm and another insurance corporation to write a policy on the same wheat, the total amount of insurance probably would be in excess of the value of the crop and the "moral hazard" would be large. In other words, the farmer might gain more through destruction or lack of care of his crop than he could hope to gain through carrying the crop to completion. Proration of losses is the solution of this problem. It is a well-established practice among insurance companies.

It is exceedingly difficult for the Federal Crop Insurance Corporation to prorate losses in the usual way with other insurance companies because the basis of the insurance is entirely different. The obligations of the Federal Crop Insurance Corporation will be in wheat rather than in money. In fact, the whole basis for settlement of loss is different. Because of these difficulties of proration in the usual way, a special plan has been provided in the regulations to the effect that if the crop insured by the Federal Crop Insurance Corporation is covered also by another substantially "all-risk" insurance policy, the obligation of the Corporation shall not exceed half of what it would be were there no other such policy on the crop. Or, if there were two other companies with insurance on the crop, the obligation of the Corporation would not exceed one-third of what it otherwise would be. The plan is simple in its operation, does not involve agreements with other insurance companies as to proration, and is substantially as equitable as any other proration plan.

23. **Designation of farm.**—As has been pointed out, the policy is designed to cover all the wheat produced on the land designated as a farm. It is also an essential feature of the program that separate policies shall be issued to landlords and tenants. Accordingly, the unit selected for the purposes of insurance must be such that the landlord and tenant each has an undivided interest in the entire wheat crop produced thereon. Thus, a crop produced by a single operator on land under two separate ownerships could not be insured for the owners under a single policy, since one would have no interest in the crop of the other. Correspondingly, a crop on land of one ownership but produced separately by two operators could not be insured for the operators as policyholders under a single policy. Consequently, for purposes of insurance, the farm must be a single operating unit under one ownership.

UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION
FCIC

QUESTIONS AND ANSWERS ON CROP INSURANCE

1. Question: How does the farmer get crop insurance?

Answer: Through the crop insurance supervisor for the county or a crop insurance representative. If not visited by a crop insurance representative he may apply for insurance at the office of the county agricultural conservation committee.

If the farmer executed a wheat adjustment contract for the 1938-39 wheat adjustment program which was accepted by the Secretary of Agriculture, information on production and acreage necessary for the application for insurance will be available in the office of the county committee. If not, he will be required to furnish and substantiate seeded acreage and production figures for his farm for the years 1930-35, inclusive. If he cannot do this his average yield will be appraised.

2. Question: What can a farmer expect from crop insurance?

Answer: His policy will guarantee him either three-fourths of an average crop for his farm or one-half of that average, depending upon his choice of policy and the approval of the Corporation of his application for such policy. The policy protects him from loss due to drought, flood, hail, wind, frost, winter kill, fire, tornado, storm, insect infestation, animal pests, plant disease, excessive or deficient moisture, incursions of animals, and any other unavoidable causes not excluded by the policy.

3. Question: How is an average yield for his farm calculated?

Answer: It is the average yield of his farm for the six year period, 1930-35, adjusted so as to reflect the experience for the ten-year period 1926-35.

4. Question: How much does crop insurance cost the farmer?

Answer: Information regarding the average cost of such insurance in the county can be obtained at the county office or from a crop insurance representative. The minimum cost of any policy would be one-half bushel per acre for insurance for three-fourths of the adjusted average yield and would be .3 of a bushel for insurance for one-half of the

adjusted average yield.

5. Question: What is done with the premium that he pays in?

Answer: Premiums received by the Federal Crop Insurance Corporation are held as a reserve from which crop losses are paid. The wheat will be stored in properly equipped elevators as near as possible to the areas in which it is grown. The Corporation will, insofar as practicable, sell this wheat only to the extent necessary to cover payment indemnities, to prevent deterioration of wheat, and for convenience in handling.

6. Question: How does the farmer collect for his crop losses?

Answer: If a loss is claimed the farmer shall render to the Corporation at the office of the county committee a statement in proof of loss regarding the damaged crop. He is entitled to recover the difference between the amount of wheat his farm actually produced and the number of bushels he was guaranteed. He will receive from the Corporation either a certificate entitling him to such wheat, or its cash equivalent determined in the manner outlined in the answer to question 7.

7. Question: In case the premium is paid in cash how will the wheat be priced and will it be based on the local elevator or the terminal price?

Answer: The cash equivalent of any premium shall be determined by multiplying the number of bushels of wheat, of the grade and class specified in the premium notice, by the basic market price of such wheat at the basic market designated by the Corporation for the area in which the farm is located, less the amount per bushel fixed by the Corporation, representing freight and other usual charges in connection with the movements and handling of wheat between a local station fixed for the farm by the Corporation and the specified basic market.

8. Question: How does the insurance reserve stabilize prices and result in a better distribution of wheat growers' income?

Answer: As a rule, wheat will be paid into reserves in large amounts during good crop years, and paid out in large amounts to cover crop losses during years of widespread crop failure. This will tend to stabilize the supply placed on the market and, consequently the price level, by taking excess wheat off the market in years of surplus production, and putting more wheat onto the market in years of scarcity. Crop failure frequently hits

local areas or large sections of wheat-growing states. Some wheat-producing areas may have good crops, while farmers in others have no wheat to market. An insured farmer in any area will always be certain that he will have at least three-fourths, or one-half, or an average crop to sell.

9. Question: When are premiums due?

Answer: Premiums are due in wheat or cash at the time a farmer receives his premium notice. A final date for payment of premiums will be fixed and announced by the Corporation.

10. Question: In case the farmer has neither money nor wheat to pay the premium, what happens?

Answer: He may arrange for a loan with which to pay the premium and then assign the policy as collateral security for the loan.

11. Question: When should a farmer apply for insurance?

Answer: He should apply as soon as practicable after he has decided what acreage he intends to plant to wheat. Application at an early date will avoid delay in the receipt of the policy. A final date for acceptance of applications in the different areas will be announced by the Corporation.

12. Question: May the farmer use his winter wheat for pasture?

Answer: Yes, however, the policy does not insure against loss in yields caused by over-pasturing.

13. Question: When are losses paid?

Answer: The amount of loss for which the Corporation may be liable shall be payable within thirty days after satisfactory proof of loss is received by the Corporation and ascertainment of the amount of loss is made by agreement between the insured and the Corporation.

14. Question: May either a tenant or a landlord insure if the other does not?

Answer: Either may insure for his share of the crop. Separate policies will be written for each.

15. Question: Can a man who is not participating in the Agricultural Adjustment Administration program get insurance?

Answer: If the county committee finds that the farmer is following soil conservation and other good farming practices and it approves his application, insurance will be granted. However, any person who, having obtained a policy, exceeds the wheat acreage allotment established under Section 8 of the Soil Conservation and Domestic Allotment Act, as amended, for the farm for the crop year covered by the policy to such an extent that no wheat payment with respect to such farm is earned for such year, shall not be eligible to obtain insurance with respect to such farm for the following year.

16. Question: How about the poor crop which is hardly worth harvesting?

Answer: A representative of the Corporation will inspect the crop and reach an agreement with the farmer in regard to the amount of loss.

In no event may there be any abandonment of the crop to the Corporation.

17. Question: May the insurance policy be assigned if the farmer transfers or loses his interest in the crop?

Answer: An assignment of the policy before the time of loss will be recognized only in connection with the voluntary transfer by the insured of his entire interest in an insured crop before the crop is cut. The insured shall be deemed to have an interest in the crop as long as he has any right of redemption therein or as long as the crop will be of direct financial benefit to him.

18. Question: I have two farms. If I insure these two farms and one farm has a crop failure, will a separate loss adjustment be made on such farm?

Answer: Where two farms are operated separately, each farm will have a separate policy and settlement of loss will be made independently for each such farm. Each farm will be considered a single unit both in the payment of premiums and in the payment of losses.

19. Question: Can I insure a part of the wheat acreage of my farm and not the other part?

Answer: No, you must insure the entire farm. This does not mean that you are compelled to insure all of your

farms in case you should have more than one. You can insure each individual farm separately and you can insure as many farms as you want to.

20. <u>Question</u>: A farmer makes an application for wheat crop insurance on a farm where he intends to plant 160 acres of wheat. It becomes too dry to seed, but he has paid the premium, what will be done about this?

<u>Answer</u>: In case the farmer does not seed, he will have his premium refunded. Any refund of premiums shall be made only in the cash equivalent of the quantity of wheat to be refunded, less an amount, fixed by the Corporation, not exceeding 1/20th of 1¢ per day per bushel, to cover storage and handling expense in storage.

21. <u>Question</u>: How much seeding will be required?

<u>Answer</u>: An amount of good seed adequate to produce a normal crop must be used.

FOUR STEPS TO INSURED HARVESTS

1 Ask your A. A. A. county committee to show you how wheat-crop insurance will apply to your farm. A representative will work out with you the approximate yield for which your crop can be insured and the amount of your premiums.

2 Fill out an application and turn it in to the A. A. A. committee of your county.

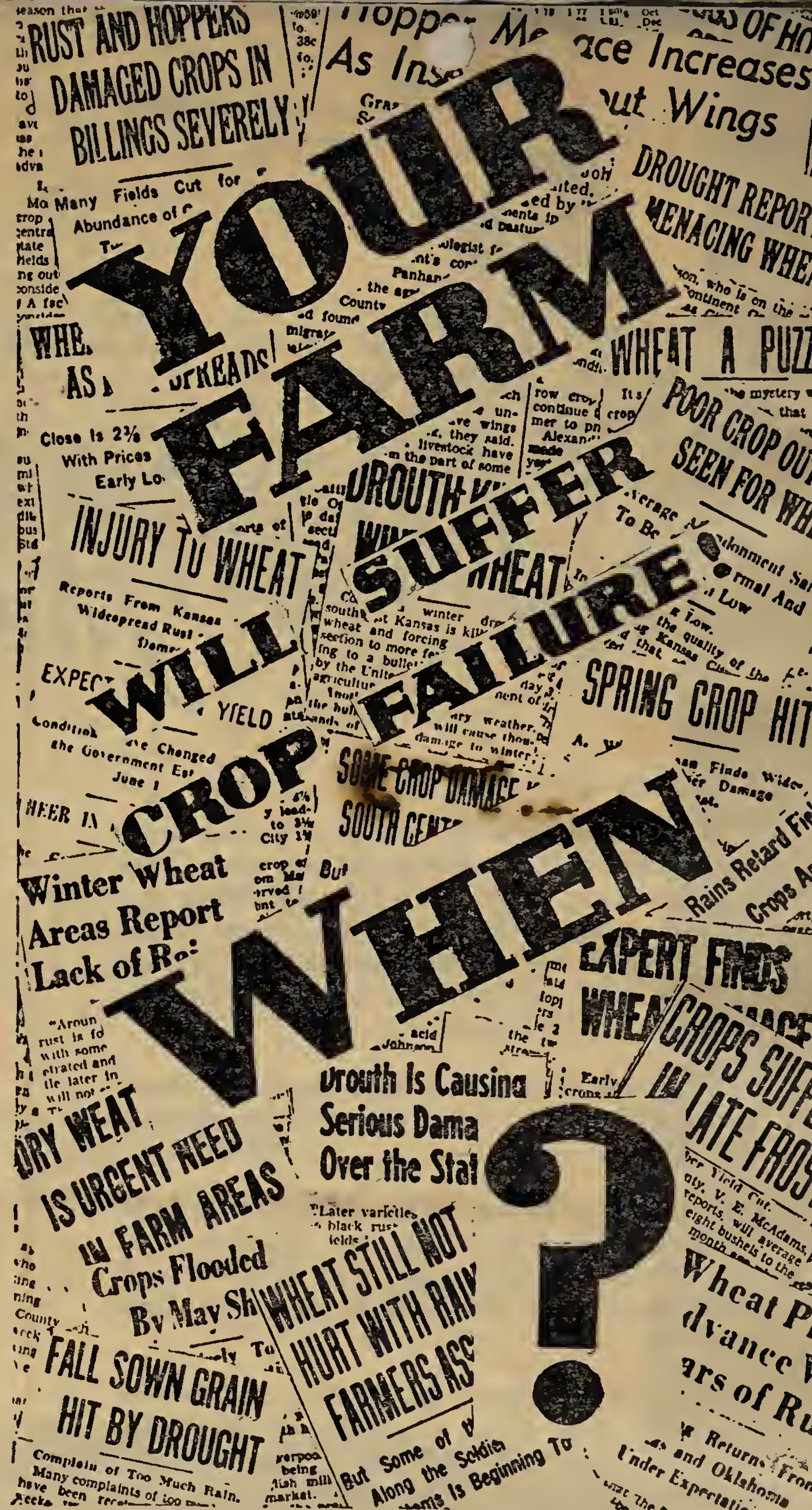
3 You will receive a premium notice stating the exact amount of the premium due, in bushels of wheat and in the cash equivalent.

4 Your policy goes into force as soon as you pay the premium and plant your wheat. Your premium payment goes into the wheat reserves of the Federal Crop Insurance Corporation, from which you will receive payment up to 50 or 75 percent of your average yield should your insured crop fail.

UNITED STATES DEPARTMENT OF AGRICULTURE

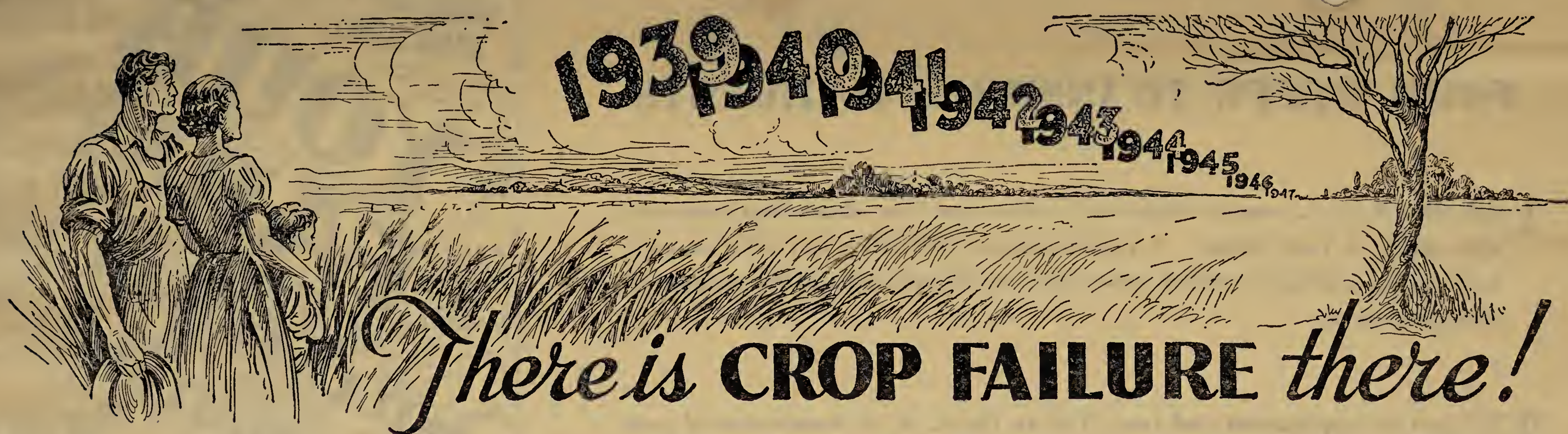
FEDERAL CROP INSURANCE CORPORATION

U. S. GOVERNMENT PRINTING OFFICE 8—12795



THE FEDERAL CROP INSURANCE CORPORATION

GIS-6 January 1939



There is CROP FAILURE *there!*

Crops Are Uncertain

Mr. Wheat Grower, when you look into the future what certainties do you see? You see operating expenses. You see living expenses. You see taxes. You may see mortgage charges. You see depreciation. These are some of the certainties of the future. These are obligations.

You look to future normal crops to meet these obligations. But normal crops are not certainties.

Somewhere in the future there is crop failure for most wheat growers. You do not know when it will come. You do not know how great your loss will be when it does come.

When crop failure does strike, and leaves you with little or no wheat to sell, how will you meet your obligations? How will you meet your taxes, your operating expenses, your debt load, your living costs, your depreciation?

Wheat growing always has been a risky business. The wheat grower in the past has had no satisfactory means of ASSURING himself of wheat to sell. But NOW, by looking ahead to the coming years, speculation CAN be taken out of it.

Chances for Normal Crop

Even if your hopes that the future will bring rain and sunshine sufficient to make rich harvests do materialize, the fact remains that grasshoppers, rust, drought, hail, floods, and other enemies of the wheat grower will strike. Mere hope is not a very effective armor against these.

You judge the future by the past. In the last 80 years there have been 13 major droughts—one every 6 years, on the average. Nine of these droughts were less than 6 years apart. That is only one of the causes of crop losses which afflict wheat-growing farmers.

Even in the least hazardous regions, wheat growers cannot expect normal yields on their farms every year. Most farmers cannot expect even 75 percent of their normal yield every year. In much of the country's wheat-growing area the chances of getting three-quarters of an average crop are only 7 or 8 out of 10. Some wheat growers put in a wheat crop when chances are 4 to 10 that they will get less than three-quarters of an average crop.

Getting Rid of Risk Element

Most businesses have long relied upon insurance to take the risk element out of their business. They realize that there are loss hazards that cannot be prevented, and for protection they set aside small amounts to offset these inevitable losses. These businesses regard insurance against unavoidable losses as part of the cost of doing business.

Farming, particularly wheat growing, is more risky than these businesses. You can take much of the risk out of wheat growing with Federal crop insurance, which guarantees the insured grower that he will have wheat to sell every year.

Cost Varies With Risk

The cost of crop insurance varies with the risk, and is based on the past experiences of the individual farm and of the county in which that farm is located.

The cost averages ½ bushel per acre on the best wheatland, 1 to 1½ bushels on good wheatland, and 2 to 2¾ bushels on the highest-risk wheatland. Would you be willing to put that much extra seed into the ground if, by so doing, you would make certain that you would not have less than three-fourths of a crop in any year?

You cannot get that assurance by putting the extra wheat into the ground, but you can by putting it into crop-insurance premiums.

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No. 3 General Information Series Issued November 1938

UNITED STATES DEPARTMENT OF AGRICULTURE
FEDERAL CROP INSURANCE CORPORATION

FCIC

QUESTIONS AND ANSWERS ON CROP INSURANCE

1. Question: How does the farmer get crop insurance?

Answer: Through the crop insurance supervisor for his county or a crop insurance representative. If not visited by a crop insurance representative, he may apply for insurance at the office of the county agricultural conservation committee.

If the farmer executed a wheat adjustment contract for the 1936–39 wheat adjustment program which was accepted by the Secretary of Agriculture, information on production and acreage necessary for the application for insurance will be available in the office of the county committee. If not, he will be required to furnish and substantiate seeded acreage and production figures for his farm for the years 1930–35, inclusive. If he cannot do this, his average yield will be appraised.

2. Question: What can a farmer expect from crop insurance?

Answer: His policy will guarantee him either three-fourths of an average crop for his farm or one-half of that average, depending upon his choice of policy and the approval by the Corporation of his application for such policy. The policy protects him from loss due to drought, flood, hail, wind, frost, winter-kill, fire, tornado, storm, insect infestation, animal pests, plant disease, excessive or deficient moisture, incursions of animals, and any other unavoidable causes not excluded by the policy.

3. Question: How is an average yield for his farm calculated?

Answer: It is the average yield of his farm for the 6-year period, 1930–35, adjusted to reflect the experience for the 10-year period 1926–35.

4. Question: How much does crop insurance cost the farmer?

Answer: Information regarding the average cost of such insurance in the county can be obtained at the county office or from a crop insurance representative. The minimum cost of any policy would be one-half bushel per acre for insurance for three-fourths of the adjusted average yield and three-tenths of a bushel per acre for insurance for one-half of the adjusted average yield.

5. Question: What is done with the premium that he pays in?

Answer: Premiums received by the Federal Crop Insurance Corporation are held as a reserve from which crop losses are paid. The wheat will be stored in properly equipped elevators as near as possible to the area in which it is grown. The Corporation will, insofar as practicable, reduce this reserve only to the extent necessary to pay indemnities.

6. Question: How does the farmer collect for his crop losses?

Answer: If a loss is claimed, the farmer shall render to the Corporation at the office of the county committee a statement in proof of loss regarding the damaged crop. He is entitled to recover the

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fixed by the Corporation, not exceeding one-twentieth of 1 cent per day per bushel, to cover storage and handling expense in storage.

21. QUESTION: How much seed will be required to the acre?

ANSWER: Enough good seed to produce a normal crop must be used.

22. QUESTION: Where there is an early complete loss of an insured wheat crop, may the farmer plant another crop on the same land?

ANSWER: In regions and under circumstances where it is customary to reseed wheat, the farmer must do so or he will not be entitled to collect on the loss. If it is not customary to reseed, he may use the land for other purposes as he sees fit only after the Corporation has consented to abandonment of the original wheat crop.

23. QUESTION: What happens in case a farmer moves from a farm on which he has insured the wheat crop?

ANSWER: He can assign his interest in the policy to whoever takes over his interest in the crop.

24. QUESTION: When can the crop be considered insured?

ANSWER: The wheat crop becomes insured when the policy is countersigned, the premium paid, and the wheat crop seeded.

25. QUESTION: What is the cost of administering the program and who pays this cost?

ANSWER: Congress has appropriated $5,500,000.00 to cover the administrative expenses of crop insurance for the fiscal year 1939. Administrative expenses include the cost of storing wheat reserves which accumulate as premiums are paid. The premium the farmer pays represents only the net cost of the insurance, i. e., the amount that it is estimated will be needed to pay indemnities for crop losses. It is not "loaded" for administrative expenses or storage costs.

26. QUESTION: Are crop insurance policies assessable?

ANSWER: No. The only cost of the insurance to the farmer is the premium. After payment of the premium, he is assured of the protection the policy offers, and in no case is he obligated for any additional payments.

27. QUESTION: When is a crop loss adjusted?

ANSWER: Total crop losses can be adjusted shortly after the loss. If the loss is partial, it will be adjusted following the harvest of the crop at which time the exact yield can be determined.

28. QUESTION: Suppose half of the acreage of wheat is winter-killed. Will the Corporation make adjustment at the time of loss or wait until the farmer has harvested the crop?

ANSWER: The Corporation will have to know how much wheat has been produced on all wheat acreage of the farm. That cannot be determined until the crop is harvested.

29. QUESTION: Suppose that in the first year the whole wheat crop over a large part of the country suffers heavy losses so that the premiums paid in are not sufficient to meet the farmers' losses.

ANSWER: That is where the capital of the Corporation comes in. In addition to the wheat reserve, the Corporation has capital which can be used to meet such losses. A capital of $100,000,000.00 has been authorized, of which amount $20,000,000.00 actually has been appropriated.

30. QUESTION: What if rust, fire, or some other cause has reduced the quality of the farmers' wheat?

Answer: Crop insurance doesn't insure the quality of wheat—it insures the yield only.

31. Question: What happens in the case of a field on which wheat has not been grown and the farmer wants to plant a crop? Can that be insured?

Answer: If the county committee agrees that the land is suitable for the raising of wheat, it can be insured. If there are no records available relative to wheat yields on the farm, an appraisal can be made of the yield and loss cost.

32. Question: Suppose a man whose wheat has yielded an average of 14 bushels an acre moves from one farm to another. Does the yield follow the land or the farmer?

Answer: Insurance is based on the land. In case a new tenant comes to a farm and little or nothing is known of his farming methods, the county committee may find it desirable to recommend a 50 percent coverage.

U. S. GOVERNMENT PRINTING OFFICE: 1938

United States Department of Agriculture

THE FEDERAL CROP INSURANCE CORPORATION

Washington, D. C.

Wheat

Crop Insurance *and* Agricultural Credit

THE FEDERAL CROP INSURANCE CORPORATION, established under the Federal Crop Insurance Act of 1938, is now offering to wheat farmers over the Nation a new form of protection against the constant hazards of crop failure. Under the program, wheat growers may obtain "all-risk" policies on their growing wheat crops, insuring a designated percentage of their average yields.

By applying the long-known and tested principle of insurance protection to growing wheat, it is planned to alleviate frequent economic distress caused by sudden unpredictable crop failure. Certainty of at least a substantial part of their wheat-crop income every year can be of great assistance to all members of the rural community—the banker, the merchant, the professional man, as well as the farmer.

Crop insurance will have an important effect on the credit relations of the wheat grower and his banker. Insurance, guaranteeing the individual producer against loss of his crop from forces beyond his control, is expected to materially broaden the credit possibilities of the farmer who has a growing crop to offer as collateral, and will strengthen the position of creditors in making loans to growers. Crop insurance opens up a new field for well-secured insured loans to wheat producers.

8—12216

Essentials of the Wheat Crop Insurance Plan

1. ADMINISTRATION AND OPERATION.—The Federal Crop Insurance Corporation, in charge of the wheat crop insurance program is a Federal corporation, established as an agency of the United States Department of Agriculture. It has a capital stock of $100,000,000 subscribed by the United States Government of which $20,000,000 is available during the current fiscal year. This capital is to augment the insurance reserves set up by payment of insurance premiums. In addition, an appropriation of $5,500,000 has been provided to pay the administrative expenses of the Corporation.

Field operations are in charge of State supervisors of crop insurance, working in cooperation with the State agricultural conservation committees. Operation in counties and communities are carried out by county crop insurance supervisors cooperating with county agricultural conservation committees.

2. THE WHEAT CROP INSURANCE POLICY.—The crop insurance policy offered to growers is especially designed to carry out the application of insurance fundamentals to growing wheat. An important phase of the policy is that it insures *yield*—not price. In order that yield alone be covered, the amount of risk for each farm insured is measured in bushels of wheat, the premium is calculated in bushels of wheat, and the reserves set up from premium payments are carried in the form of actual wheat in storage.

Provisions of the policy are:

(*a*) *Protection.*—The policy offers producers two choices of the amount of coverage: 50 or 75 percent of their average yield. The farmer may select either of these percentages of coverage, except in some cases where the amount of coverage may be limited to 50 percent.

Protection is "all-risk." The crop is fully protected from the time it is seeded until harvested against loss in yield from drought, flood, hail, wind, frost, winter-kill, lightning, fire, tornado, storm, insect infestation, animal pests, plant diseases, and other unavoidable causes not specifically excluded by the policy.

The "average yield" for a farm, from which the amount of coverage is determined, is the average yield of the insured farm for the 10 years, 1926–35.

(*b*) *The Premium.*—The premium is based on the actual loss experience of the farm over the 10-year period, 1926–35, blended with the loss experience of the county in which this farm is located. The premium is stated in bushels per acre or the cash equivalent of the amount of wheat called for by the premium at the current market price.

It will be seen that the amount of the premium varies from farm to farm in accordance with its risk, and thus no exact figure can be given for the amount of premium due until the farmer has obtained a statement of the premium on his particular farm. However, the minimum premium for 75 percent coverage is 0.5 of a bushel an acre, and for 50 percent is 0.3 of a bushel an acre. In eastern States, premiums generally range from the minimum up to 1.5 bushels an acre, and in the western wheat belt from the minimum up to approximately 2.5 bushels an acre.

3. The Reserve.—Since protection is in terms of bushels of wheat, premiums are paid in terms of wheat, and the reserve which stands behind the policies is in the form of actual wheat in storage. This reserve is built up as premiums are paid in, and can be reduced only to the extent that wheat is withdrawn to pay losses incurred by insured wheat growers.

4. Indemnities.—After proof of loss has been established, claims will be promptly adjusted and payment made to the producer for the number of bushels the actual yield falls below the yield insured by the policy. The farmer may recieve his indemnity in the form of a warehouse receipt giving title to the amount of wheat represented by his loss, or he may receive the cash equivalent of that amount of wheat at the current market.

Policy May Be Assigned for Loans

An insurance policy may be assigned as collateral security for a loan made for the following purposes: (1) Payment of the premium on the policy; (2) financing the care of the crop, including cost of seed, preparation and care of the seed bed,

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planting, reseeding, and the purchase, rental, or hire of necessities required by the assignor or persons dependent upon the assignor for the purpose of caring for the crop.

Such a collateral assignment may be executed under Federal Crop Insurance Form 23 (FCI–23), copies of which are available from county crop insurance supervisors. Assignments are subject to the following conditions: (1) Only one assignment of a policy with respect to a farm shall be recognized by the Corporation; (2) the Corporation reserves the right to make payment to the assignee only on receipt of a statement of the amount of indebtedness secured by the assignment which is owing to the assignee at the time any claim under the policy is payable; (3) the assignment shall be binding on any person who succeeds to the assignor's interest in the policy.

Local banks may be called on by farmers to make loans to pay premiums or to provide for care of the crop.—It is anticipated that in case bankers make such loans, they will obtain collateral assignments on the policies issued to the farmers. In case the crop should be reduced or destroyed by some hazard the banker is protected by the assignment. In case the crop exceeds the insured coverage the banker would be protected by a chattel mortgage on the crop.

Loans made for which policies are assigned in many cases will be for a 6- to 12-month period, which would require modification of the policy of some banks with respect to short-term paper. Yet in view of the added security afforded by the policy it would seem that banks would be justified in taking this longer term paper.

United States Department of Agriculture

THE FEDERAL CROP INSURANCE CORPORATION

Washington, D. C.

FCIC
G. I. S. No. 4
Issued August 1938

GPO 8—12216


wheat in your BIN
EVERY year

WHEAT CROP INSURANCE MEANS "WHEAT IN THE BIN" FOR YOU

WHEAT GROWERS! CROP INSURANCE WILL—

1. Guarantee you wheat to sell every year, regardless of crop losses from weather, insects, or other unavoidable hazards.
2. Make your growing crop a substantial source of credit.
3. Give you an interest in the wheat carry-over from which you may obtain advantage of price advances.
4. Pay you back, over a period of years, approximately the same number of bushels that you pay in for this protection.
5. Vary the cost of insurance protection on your growing crop according to the actual loss experience on your farm and in your county. Low risk farms pay low premiums.
6. Vary the insured yield according to the yield record of your farm. Higher yields get higher protection.
7. Put into your own hands the means of meeting the economic threat of crop failure.
8. Help carry out the Ever Normal Granary Program for wheat.

Federal Crop Insurance Corporation
United States Department of Agriculture
Washington, D. C.

Why You Need Federal Crop Insurance

As a wheat grower you know that crop failure strikes some place every year. There are few wheat growers who can look back 10 years without recalling serious crop losses on their own farms.

THE BURDEN OF CROP FAILURE

As a wheat grower, when you seed your crop, you are investing your labor, your land, your seed, and your operating expenses in the prospect that harvest time will bring you sufficient bushels of grain to meet your obligations and return a profit. You know, of course, that the skill and the investment that have gone into making that crop possible may be obliterated overnight by natural forces over which you have no control, such as hail, flood, wind, drought, fire, grasshoppers, plant diseases, frost, animal pests, and other unavoidable hazards. If you are to stay in the business of wheat growing, you must carry the burden of these hazards which may strike your crop. Yet, the experiences of the past few years, which have been particularly marked by frequent failure of the wheat crop

The farmer shows the county crop insurance supervisor his wheatland

in certain regions, have illustrated how this burden can become larger than the individual's ability to carry.

There is no way of halting the losses to the wheat crop from these natural forces. But there is a method by which you can prevent such losses from suddenly cutting off your wheat income. That method is "all-risk" CROP INSURANCE.

Essentially, crop insurance is a further development of the practice of our grandfathers in putting aside part of the bountiful harvests for a "rainy day." The simplest form of crop insurance is the kind you undertake when you store a part of your good crops to tide you over the lean ones. However, the individual reserve has one weakness. Two or three crop failures in a row will exhaust the individual reserve, and leave the individual farmer without future protection. This was the case in the Wheat Belt in 1932–37, when a run of drought years exhausted the cash and grain reserves that producers had built up in previous years, and caused many to be pushed below the level of self-sufficiency. "All-risk" CROP INSURANCE carries the process of saving for a rainy day one step further. It replaces the individual reserve with the infinitely stronger group reserve in which the premiums—or reserves—of the many are used to pay the losses of the few. The group reserve is the foundation of all insurance, and through it losses which would ordinarily wipe out the individual can be absorbed easily by the group.

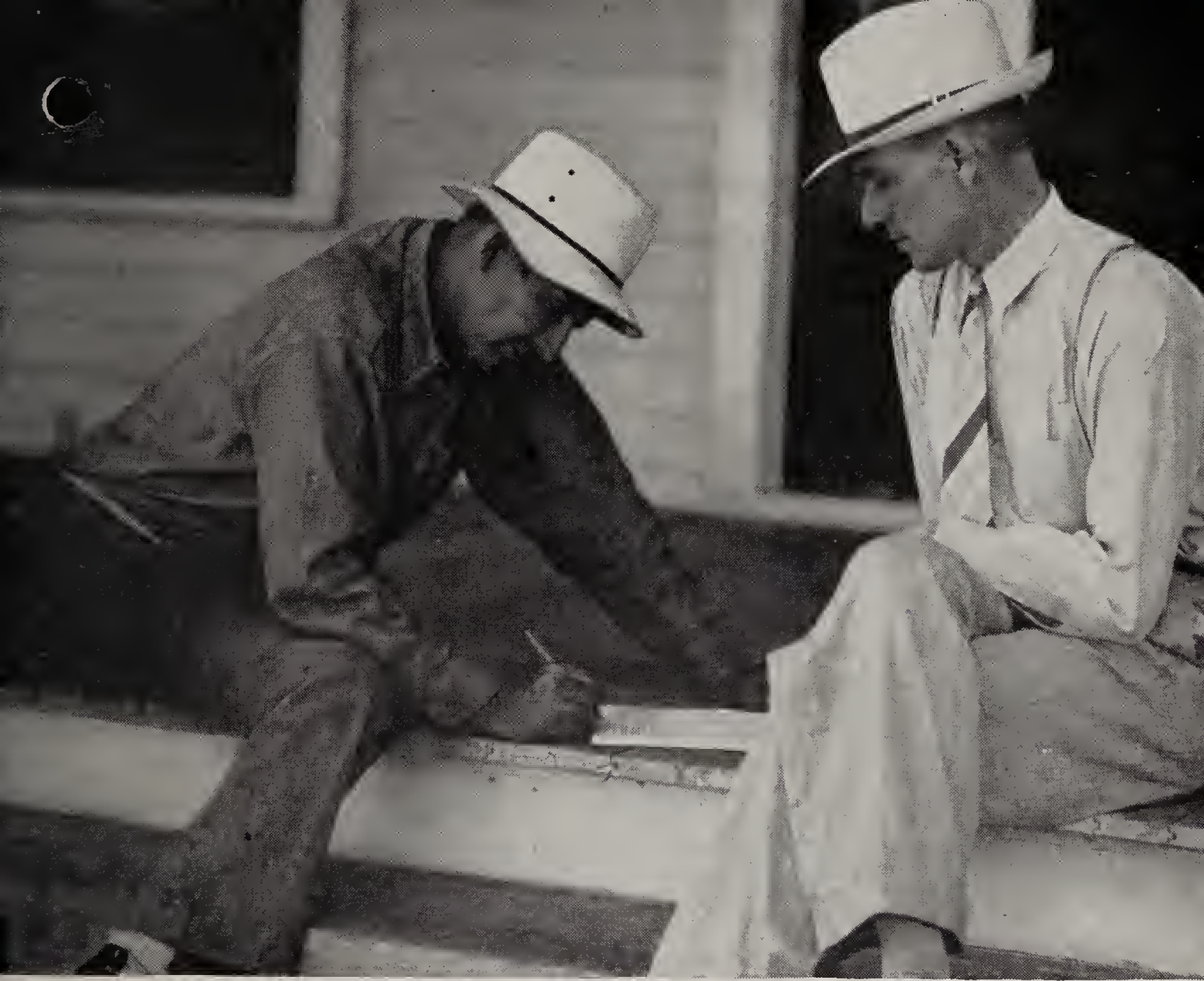
STORING GRAIN AGAINST LOSSES

What Wheat-Crop Insurance Is

The new Federal Crop Insurance program is a part of the national farm program and is administered locally with the help of the A. A. A. State and county committees. It is especially designed to provide a method by which the wheat industry can carry its own crop losses as an industry, rather than allowing the full burden to fall on you, the individual grower.

Wheat-crop insurance aims at this goal by adapting the principle of the group reserve to wheat in the fields. The program sets up a reserve of wheat—"wheat in the bin"—into which farmers taking out wheat-crop insurance pay their premiums, and from which they can draw when their crops fail. To take part in the program, growers buy crop-insurance policies, paying premiums into the group reserve in accord-

INSURANCE RESERVE IS STORED WHEAT



They figure up the premium, and the farmer signs an application

ance with the amount of risk which attends the growing of wheat on their individual farms. The amount of risk is measured in bushels of wheat per acre. The premiums are calculated in terms of bushels of wheat, and the reserve is carried by the Federal Crop Insurance Corporation in actual wheat in bonded storage.

There are two methods by which the premium may be paid—in wheat or cash equivalent. The farmer obtaining an insurance policy may take the actual number of bushels of wheat called for in his premium notice to a designated "collection warehouse," where he will receive a negotiable warehouse receipt for the grain, which may be turned over to the Corporation as the premium payment. If he prefers to pay cash, he may do so by paying the cash equivalent of the amount of the wheat due as premium. The cash equivalent is the value of the amount of wheat called for by the premium notice at the current market price.

"This load of wheat is my premium. No more crop worries for me!"

The wheat reserve is the heart of the crop-insurance program. It backs the guarantee in the farmer's policy that he will have either three-fourths or one-half of an average crop on his farm every year that he is insured. The wheat in the reserve is for only one purpose: To pay crop losses of insured farmers. The reserve cannot be reduced except to pay indemnities to insured farmers. It is held outside of marketing channels; it cannot be used for price manipulation.

It can be seen that under the crop-insurance plan the wheat grower bears the actual cost of the insurance with the wheat, or its cash equivalent, that he pays in as a premium. The Government has an interest in a successful crop-insurance program. If the wheat industry can carry the losses of its members, there will be a lessening of the relief burden from those farmers who have experienced a series of crop failures. Public welfare also is served by a program that will aid in maintaining a more stable supply of wheat. Because of the public's stake in crop insurance, the Government is paying the cost of administering the program and the cost of storing the wheat reserves.

How Crop Insurance Works

As a wheat grower, some of the questions you will want answered are—

1. Question. What does wheat-crop insurance protect me against?

Answer. The policy will protect you from crop loss due to drought, flood, hail, wind, frost, winterkill, fire, tornado, storm, insect infestation, animal pests, plant diseases, excessive or deficient moisture, incursions of animals, and any other unavoidable causes not excluded by the policy.

2. Question. How much protection does it give me?

Answer. The policy will guarantee you either three-fourths or one-half of your average yield for the 6-year base period, 1930–35, adjusted to reflect the experience of your farm for the 10-year period, 1926–35. The amount of coverage depends on your choice of either the 50- cr 75-percent provision, subject to approval by the Corporation

He takes his wheat for the premium to a "collection warehouse"

3. Question. How much will it cost me?

Answer. The minimum cost of any policy is 0.5 bushel per acre for 75 percent coverage and 0.3 bushel for 50 percent coverage. The amount of premium varies with the "loss-cost" of the farm, and is the amount of wheat which will cover the average annual loss of the 10-year period. The premium is further adjusted to reflect the "loss-cost" of the county in which the farm is located.

4. Question. How do I get crop insurance?

Answer. Apply to the county crop insurance supervisor at the A. A. A. office of your county. He will be glad to make out an application for you, and give you an estimate of your premium.

The operation of CROP INSURANCE can best be shown by following the insurance procedure through for an actual wheat farm. For example:

An owner-operator has a 100-acre wheat farm. In good years he has harvested as much as 30 bushels to the acre—3,000 bushels of high quality bread wheat. However, his past record of yields over a long period does not give him any assurance of a crop in 1939. Some years he has lost crops, partially or wholly, through a number of reasons—drought, black rust, hot winds, harvests delayed by rains, and hail. Because of this uncertainty he is interested in CROP INSURANCE. So he goes to the county crop insurance supervisor and gets an application blank on which to apply for insurance on his 1939 wheat crop. The supervisor shows him how to figure out the amount of insurance he can get and approximately what it will cost him.

His insurance coverage, he is told, depends on the 1930–35 average yield on his own farm adjusted to reflect the 10-year period, 1926 to

COVERAGE DEPENDS ON YIELD OF FARM

1935, inclusive. If he has no accurate record the farm is appraised for both "loss-cost" and average yield. The yield of his farm during the 10 years varied between a complete failure and 30 bushels per acre. The 10-year average is 16 bushels an acre. As he can be insured for one-half or three-fourths of his average yield, the coverage in bushels per acre is either 8 bushels—50 percent, or 12 bushels—75 percent. He decides to apply for 75 percent coverage. If that policy is accepted he will be guaranteed 12 bushels an acre on his 100 acres, or a total of 1,200 bushels of wheat. With CROP INSURANCE he knows he will get that much wheat regardless of crop failure from unavoidable causes.

If his land does not produce that much in 1939, the Federal Crop Insurance Corporation will make up the difference.

Now, how much will that insurance cost him? The cost depends on the losses on his own farm and in the county. In other words, the farmer carries the cost of his own insurance. Using the past as a yardstick of the future, the annual premiums for his farm will approximate the amount that will pay out the average loss over a 10-year period.

COST VARIES WITH LOSS EXPERIENCE

Accordingly, the loss experienced during the 10-year period, 1926–35, is accepted as a basis for forecasting future losses for the farm. The same farm records from which the coverage was determined show that during 3 years of the 10-year period the average yield of the farm was less than 12 bushels an acre, the insurance coverage. The total of these shortages below the insurance coverage is 16 bushels. If the farmer had been insured in the 1926–35 period, he would have collected a total of 16 bushels of insurance an acre. That is the "loss-cost" of insurance for that farm. However, the basic idea of insurance is to average the loss over a period of years. For the 10-year period, the loss cost for this farm is figured by dividing the 16 bushels total shortage by 10 years, which is 1.6 bushels per year. The "loss-cost," then, is 1.6 bushels each year.

The farm, however, may have been spared losses during these 10 years that occurred on other farms in the county. It may not be spared such losses in the future. Or it may have suffered losses that likely will not occur again in the immediate future. Accordingly, in determining the "loss-cost" of the farm, the average loss for the county is taken into account.

Averaging the "loss-cost" for the farm, which is 1.6 bushels, with that for the county, which may be 1 bushel, gives a premium rate for the farm of 1.3 bushels an acre.

Thus, for this 100-acre wheat farm, the annual premium required to guarantee the operator 12 bushels an acre, or a total of 1,200 bushels, in 1939 is 1.3 bushels per acre, or 130 bushels.

The farmer can pay this premium with the actual wheat, or with the cash equivalent, whichever is most convenient for him. The premium notice he receives will state the amount due both in terms of wheat and in the cash equivalent.

"Rust—spreading this way. I'm glad OUR crop is insured."

MAKING CLAIM IN LOSS OF A CROP

How does a farmer draw on the crop insurance reserve when crop losses strike his farm? Taking the case of the example farm: If crop losses should cut the yield below the insured coverage of 1,200 bushels, the first step for the farmer would be to make a report of the loss. If the loss is not complete, adjustment will await harvest, when the yield can be checked and proof of loss established. Then, if it is shown that the total crop turns out, say, only 6 bushels an acre, or 600 bushels, the farmer will be entitled to 600 bushels as an indemnity from the insurance reserve to make his crop up to the 1,200 bushel coverage.

However, should a complete, or near-complete failure occur as the crop is growing, an adjuster will check the loss with the farmer. If it is apparent that the crop will not be worth harvesting the Corporation may settle immediately.

After proof of loss has been established, the farmer will be paid an indemnity. He may get his payment in two forms: Wheat or cash, depending on his choice and the option of the Corporation.

Cash equivalent payments will represent the value of the number of bushels of the loss on the day the claim was approved. The farmer may prefer to have actual wheat, in which case he may ask for a warehouse receipt, giving him title to the amount of wheat for which his claim was approved. After claims for loss have been adjusted and the crop abandoned, the farmer may use the land for other purposes.

CROP INSURANCE NOT A NEW IDEA

That in essence is the Federal Crop Insurance program. It is simple. It relies upon well-established rules of insurance and time-tested methods. Individual farmers have long been saddled with the sudden cost of crop failure. Many businesses less risky than farming have long enjoyed some form of insurance protection.

The idea of applying the insurance principle to a growing crop is not new. Benjamin Franklin advocated CROP INSURANCE 150 years ago. Experiments with all-risk CROP INSURANCE were started by private companies in this country nearly 40 years ago.

The possibilities of a crop-insurance program have been studied by the Federal Government since 1920, but until recently efforts to establish such a system have met with these two obstacles: (1) Lack of data on which to measure amount of risk involved in insuring growing crops, and (2) lack of a field organization to administer the program. The first need has been supplied by actual yield information assembled on a large number of wheat farms cooperating in the agricultural adjustment program. The second need has been filled by trained farmer-committees established by the A. A. A. which have demonstrated their ability to administer a program of this nature.

DOES NOT INSURE PRICE OF WHEAT

The Federal Crop Insurance program guarantees supply of wheat for the farm; it does not guarantee a price per bushel or an income per acre. There are several reasons for this. In the first place, other phases of the Federal farm program help wheat growers get a fair price, and CROP INSURANCE is a part of the general program. Then, too, insuring price would greatly add to the risk, and this would mean, in turn, that the cost of insurance to the farmer would be increased, since premiums are determined in accordance with the risk involved.

However, CROP INSURANCE may help a farmer get higher prices for some of his wheat. That may be illustrated by citing what would have happened if CROP INSURANCE had been in effect beginning with 1930. Beginning with that year, there were 3 years of large wheat production, followed by 3 years of smaller production. During the first 3 years, insured farmers would have put in more wheat than they took out of reserves. During the next 3 years, they would have taken out more than they put in as premiums. During the second 3-year period prices were better than during the first 3 years because of lessened wheat production. If half the wheat growers had been insured during this period, it is estimated they would have increased their income by $40,000,000.

A crop-insurance policy will not take the place of a good wheat crop. A good wheat grower, even if he is insured, will try for the highest wheat yield, but nothing he can do will absolutely insure him that yield. A crop-insurance policy absolutely assures him that he will either get three-fourths or one-half of his normal yield.

REDUCES GAMBLE OF WHEAT-GROWING

Through the means of a crop-insurance policy, a wheat grower joins with other growers in meeting the hazard of crop failure on his farm. Crop failure may strike him 2 or more years in a row, and there will still be enough wheat in the reserves to cover his losses. In the long run an individual farmer pays in premiums about what he takes out in indemnities. He gets the indemnities in years when he has partial or total failures.

How much does freedom from the worries of crop failure mean to you? A farmer answers that question for himself when he considers CROP INSURANCE.

Would you, if you could thus assure yourself of the three-fourths of a crop, sow extra seed, from ½ to 2¾ bushels to the acre? You cannot get assurance by putting the wheat in the ground.

YOU CAN—BY PUTTING "WHEAT IN THE BIN" THROUGH A CROP INSURANCE POLICY

U. S. Government
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FCIC
G. I. S. No. 5
Issued October 1938

These Simple Steps Will Guarantee You of "Wheat in the Bin"

1. Ask your county crop insurance supervisor to show you how wheat crop insurance will apply to your farm. From the records of your farm he can give you the approximate yield for which you can be insured and the amount of your premiums.

2. Fill out an application and turn it in to the county supervisor or the county A. A. A. committee.

3. You will receive a premium notice, stating the exact amount of the premium due, in bushels of wheat, and in the cash equivalent.

4. On payment of the premium your policy is ready to go in force as soon as your crop is planted. The wheat reserves of the Federal Crop Insurance Corporation are your guarantee of at least 50 or 75 percent of an average crop next year.

Take the STING Out of Crop Failure

You want the best yields of wheat you can get—and you farm the best way to get them. But there is always the possibility of drought . . . flood . . . fire . . . hail . . . rust . . . or some other risk beyond your control.

MAKE SURE OF AT LEAST 50 OR 75 PERCENT OF AN AVERAGE YIELD WITH A CROP INSURANCE POLICY.

"There's my 'wheat in the bin'—the reserves of the FCIC"